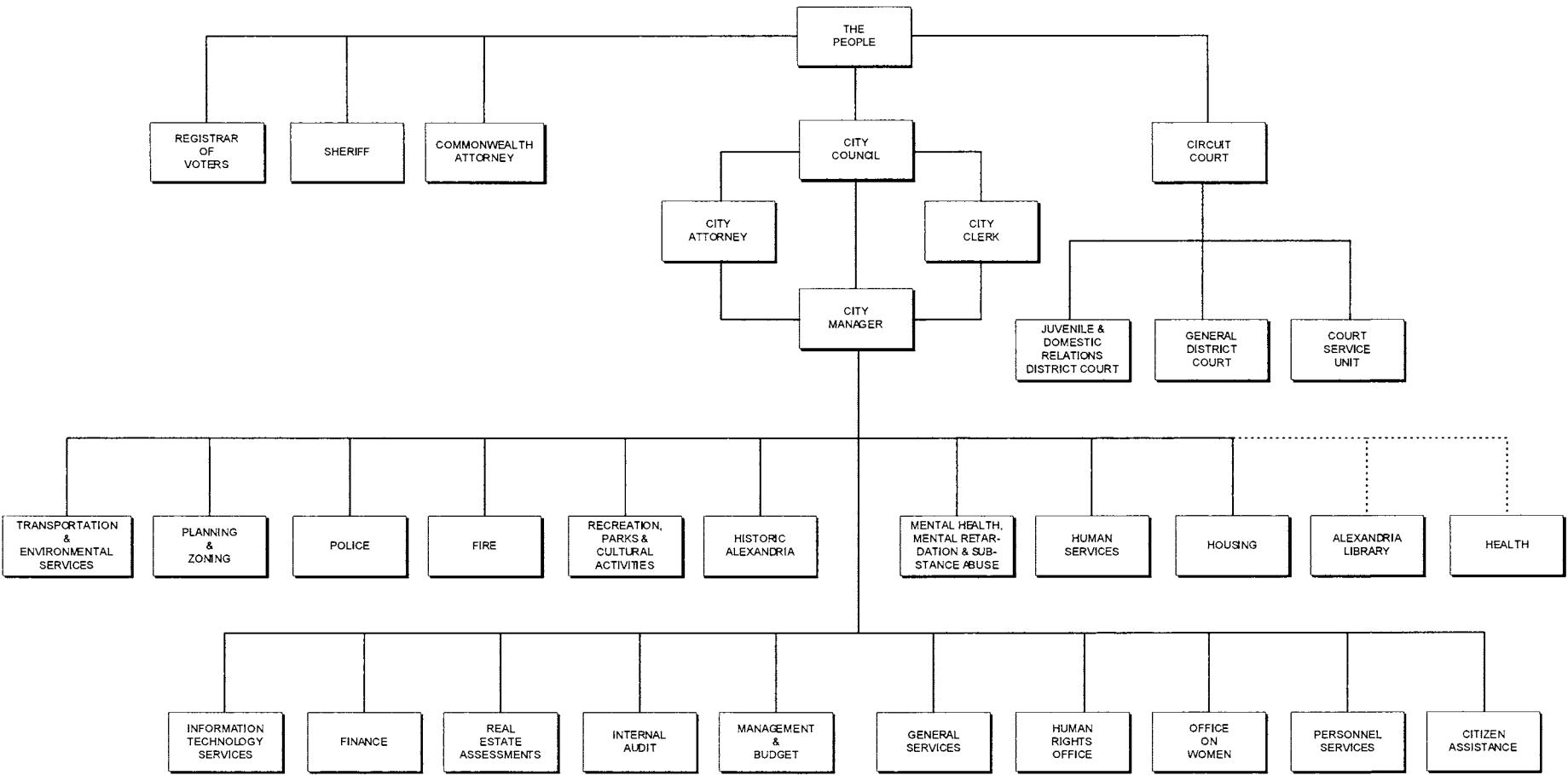


ALEXANDRIA CITY GOVERNMENT



Understanding the Budget

The City's budget serves as the blueprint for the financial and policy decisions that City Council will implement during the fiscal year. Budgeting is necessary for several reasons.

First, the budget is a fiscal plan. Budgeting provides estimates of the costs that will be incurred if activities are carried out as planned; the revenues necessary to finance these activities; and the rates of taxation necessary to generate these revenues. The appropriation ordinance adopted by the City Council establishes the legal authorization for the expenditure of public monies and becomes the approved financial plan for the upcoming fiscal year.

Second, the budget is a management tool. The budget process provides an opportunity for the City Manager, department directors and agency heads to evaluate the City's services and recommend the best means of allocating resources to provide effective and efficient government services. Program goals, objectives, descriptions and activities are linked to performance measures that are detailed in the budget, as are the costs and resources required to meet the goals and objectives. As a management tool, the budget serves to establish accountability for the effective and efficient operation of specific programs and to locate responsibility for the delivery of City services.

Beginning with City Council's establishment of a long-term vision and a set of major goals for the City of Alexandria, combined with the economic outlook of the City presented by staff and a public hearing to gather citizen input in November, and continuing through the adoption of the FY 2007 budget on April 24, 2006, the budget process weighs both the short and long term objectives of numerous stakeholders against the available financial resources.

FY 2007 Budget Planning

The FY 2007 budget process began with City Council's adoption of resolution 2150 on May 2, 2005, establishing several new guidelines that accelerated the budget process in order to provide City Council and the public with time to more thoroughly examine the City's operating and capital budget needs. In addition, this legislation required City Council to adopt a budget resolution during the month of November that set an expenditure growth target for both the City and School's budget.

On November 12, 2005, City Council passed a resolution establishing two targets to be incorporated in the City Manager and the School Board's Proposed budgets. As a result, the expenditure growth target for the entire budget was 8.5 percent, with an alternative budget target of 6.0 percent. These targets were based on citizen input from the FY 2007 Budget public hearing as well as preliminary forecasts of revenues, expenditures, and capital needs presented at the City Council Retreat on October 29, 2005.

The FY 2007 budget process also was guided by the City Council's Strategic Plan, adopted in September 2004 and revised in January 2006, that identifies an overall long-term vision for the City with a set of major goals. The development of the budget was based on the following eight goals:

- Quality development and redevelopment that is well planned and consistent with Alexandria's vision.
- A City that respects, protects and enhances the natural environment and historic resources.
- An integrated, multi-modal transportation system that efficiently and effectively gets people from point "A" to point "B."
- A strong local economy that is growing in varied small businesses and job opportunities.
- A caring community that is diverse and affordable.
- A City government that is financially sustainable, efficient and community oriented.
- A City that ensures the safety, security, emergency preparedness, and well being of the community.
- Public schools that are among the best in Northern Virginia (in partnership with the Alexandria Schools).

These objectives were coupled with existing policies and guidelines for developing the budget, including the City's Compensation Philosophy and the Debt-related Financial Policies. These other policies are described below.

Other Continuing Policy Guidance and Planning

Debt-Related Financial Policies: The City Council's debt-related financial policies, which guide decision-making throughout the annual operating and capital budget development cycle, are printed in the Capital Improvement Program (CIP) Related Information section of this document, and the City's Proposed FY 2007 to FY 2012 Capital Improvement Program (CIP) is consistent with these policies.

Compensation Philosophy: On May 27, 1997, City Council adopted the City of Alexandria's Compensation Philosophy, which is intended to provide a broad framework to help City Council, management, employees and the citizens understand and guide decisions that affect City employee pay. The Compensation Philosophy is printed in the Appendices section of this document. Proposed FY 2007 employee compensation adjustments are recommended based on the guidance provided by the Compensation Philosophy.

Youth Policy: The Youth Policy Commission was established by City Council in 1997 to emphasize delinquency prevention, and to target activities that effectively promote positive outcomes for youth and support families through optimal use of existing funds, development of new resources, and engagement of the community. Initiatives that require new or reallocated funding are proposed in the annual budget process, and the Commission monitors success in achieving goals for youth through a biennial Community Report Card.

Long Range Quality of Life Planning: Several initiatives have recently been established or are still being formulated to address the quality of life of citizens City-wide, including the availability of affordable housing, the preservation of open space, a City-wide assessment of recreation and leisure needs, and a City-wide transportation policy and plan.

City Council Retreat and the Budget Preparation Process

Each year, City Council holds a retreat in the fall that provides staff with an opportunity to give Council an overview of the economic outlook, locally, regionally and nationally. Additionally, staff provides information on the expenditure outlook, for the upcoming fiscal year and beyond. At this time, Council provides staff with some of the priorities to be addressed in the upcoming fiscal year.

For the FY 2007 budget process, departments and agencies submitted detailed operating budget requests to the Office of Management and Budget (OMB) in September, in accordance with procedures and guidelines established by the City Manager. OMB and City Manager's Office staff met with departments and agencies during the formative stages of budget development to discuss major issues. Departments were asked to identify "mandatory adjustments to base" which were required to meet one of the following criteria: (1) increases to maintain current service levels; (2) increases necessary to implement City Council approved policies and programs; or (3) increases necessary to meet legal requirements. In addition, all City agencies were asked to identify potential process improvements that would yield efficiencies as well as a list of low priority programs and activities that were not crucial to achieving the City's strategic objectives. Departments also submitted discretionary supplemental requests, to expand programs or services, that had a direct relationship to City Council's Strategic Plan. The total identified savings were approximately \$2.1 million and were used, essentially, to fund the departments' supplemental requests.

While analyzing the budget requests, OMB continued discussions with department and agency heads from September through December to formulate recommendations to the City Manager. In November and December, the City Manager, the City Manager's Deputies and OMB met with all departments that were requesting supplemental funding for new positions or initiatives and select other departments. Departments were given the opportunity to present their requests to the City Manager and to justify the need for additional funding. The City Manager's Proposed FY 2007 Budget reflects the Manager's consideration of these requests in light of revenue limitations, competing expenditure demands, and the City Council's budget resolution targets for expenditure growth of between 6.0 percent and 8.5 percent.

The City's budget calendar was designed to incorporate time for consideration of the School Board's Approved FY 2007 Budget prior to the presentation of the City Manager's Proposed FY 2007 Budget. The School Board adopted their FY 2007 budget on January 26, 2006.

As presented to City Council, the FY 2007 Proposed budget reflects increased residential assessments tempered to some degree by real estate tax rate reductions. If the proposed budget, a 7.0 percent increase is approved by City Council, the tax rate is contemplated be reduced by 6.8 cents. If the alternative budget target, a 6.0 percent increase is approved, the tax rate could be reduced by an additional 1.8 cents to 8.6 cents. The budget also reflects continued steady, but tempered growth in the local economy (including only a 4.0 percent growth in next year's real estate assessments), a cautiously positive prediction of the economy's future, and conservative estimates of State aid. The FY 2007 budget seeks to take the next steps toward achieving the City's Strategic Plan. The FY 2007 budget also maintains competitive compensation increases for City and Schools employees, and current levels of service, except those identified by departments through the reduction process as marginal service reductions.

Organization of the Budget Document

In addition to presenting the City's financial plan, the budget document is intended to be a resource and reference guide, providing information on City programs and services. The budget document has been divided into two volumes: one containing the Operating Budget document and the other containing the Capital Improvement Program document.

- * The Operating Budget document groups City operating departments together by general government program areas, using the program categories defined by the Auditor of Public Accounts for the Commonwealth of Virginia (APA) as a guide. This organization is offered to assist the public in gaining an understanding of the total resources provided in a particular program area.

Section I contains the Table of Contents. Section II includes the City Manager's Message. Section III is a budget overview that provides general budget information including summaries of the proposed changes in expenditures, and revenues and the process by which the City achieved the budget target and the alternative budget target. Section IV includes the Strategic Plan, Section V provides revenue and expenditure summaries, various charts and schedules that provide overall information on the City's finances, personnel summaries, multi-year revenue and expenditure forecast scenarios, fund balance information, and a "Layperson's Guide to Fund Balance," based on a report prepared by the Council-appointed Budget and Fiscal Affairs Advisory Committee.

Sections VI through X present budget information for each department. The major elements in these sections are organizational charts, graphs, goals, program descriptions, performance indicators and measures, and a summary of the budget proposal and supplemental budget requests. These sections also contain statements of estimated expenditures for each City department and agency, classified into three expenditure categories (or expenditure "characters"): Personnel Services, Non-personnel Services and Capital Outlays. In an effort to increase the informational value of each department budget, a breakout of expenditures and staffing by division has been included for each department, where applicable.

Section XI provides an overview of the Capital Improvement Program (CIP), its impact upon the operating budget, and an explanation of the City's debt ratio policies. Section XII is the "Community Profile", which provides a description and basic statistical information on the City. Section XIII summarizes the budget process, provides general budget guidance, and includes a summary of the proposed funding levels in the General Fund budget.

Section XIV provides a glossary of relevant budget terms. Section XV includes the legislative references and charter provisions relating to the budget. Section XVI is comprised of Appendices, which include the salary schedules and classification structures applicable to the City government as well as the Alexandria Compensation Philosophy. Section XVII is the Program/Services Index, providing a locator guide to program information in the Operating Budget document.

- * The Capital Improvement Program document describes each capital project that the City plans to undertake over the next six years. This description includes a justification for each project, the priority assigned to the project and the estimated impact of each capital project on the City's budget throughout the six-year period. (Detailed information on individual school capital projects is presented in the Alexandria City Public Schools 2006-2007 Capital Budget, available from the Office of the Assistant Superintendent for Financial and Administrative Services, 2000 North Beauregard Street, Alexandria, Virginia.)
- * The Information Technology Plan describes the City's commitment to building and maintaining an essential information technology infrastructure. The plan will enhance information technology services and build on existing City hardware, networks and software that have been implemented over the past decade.

Budget Amendments

During the fiscal year, the approved budget can be amended by either the reappropriation ordinance (generally in December) or the supplemental appropriation ordinances (generally two or three times during the fiscal year). A reappropriation ordinance allows encumbered monies from the previous fiscal year to be recognized in the current fiscal year. These encumbered monies are specifically identified within the previous fiscal year's Comprehensive Annual Financial Report (CAFR). A supplemental appropriation ordinance amends the budget for grant programs to reflect actual revenue received and to make corresponding balancing adjustments in grant program expenditures. A supplemental appropriation also amends the budget for duly docketed City Council items during the fiscal year that increase or reduce the current fiscal year appropriation. A supplemental appropriation ordinance may, therefore, either increase or reduce the City's total budget from the original approved budget appropriation.

The approved budget may also be amended by City Council at the end of the fiscal year via a resolution to transfer appropriations to adjust the various departmental accounts according to projected final expenditure patterns. The transfer of appropriations has no net impact on the aggregate approved budget amount, but rather enables the Council to adjust the budget of a given department for unanticipated expenditures.

Budget transfers within a department may be approved by the City Manager, as discussed in the following section on Budgetary Accounting.

Budgetary Accounting

The City's financial operations are budgeted and accounted for in a number of "funds." A fund is an independent fiscal and separate accounting entity, with a self-balancing set of accounts including revenues and expenditures, assets and liabilities. Separate funds that have been established by the City include the following:

- The General Fund is the primary operating fund of the City. This fund is used to account for all financial transactions and resources except those required to be accounted for in another fund. A detailed estimate of General Fund balance available for appropriation for general operating expenditures is provided in the Statement of Estimated Undesignated General Fund Balance, in Section V of this document.

The following table and the descriptive material following the table are intended to respond to the Government Finance Officers Association (GFOA) budget document presentation requirement that a fund balance projection be included for each fund, in addition to the General Fund, established by the City. The other funds, discussed below, include the Special Revenue Fund, Capital Projects Fund, Internal Services Fund, and Sanitary Sewer Enterprise Fund .

Governmental Funds			Proprietary Funds		
	Special Revenue Fund	Capital Projects Fund ⁴		Internal Services Fund (Equipment Replacement Fund)	Sanitary Sewer Enterprise Fund ⁶
Beginning Fund Balance 7/1/05 ¹	\$12,243,056	\$150,085,233	Beginning Net Assets 7/1/05	\$18,818,175	\$0
Plus FY 2006 Budgeted Revenues ²	\$88,078,796	\$67,811,626	Plus FY 2006 Budgeted Revenues ⁵	\$4,045,973	N/A
Less FY 2006 Budgeted Expenditures ²	\$88,078,796	\$67,811,626	Less FY 2006 Budgeted Expenses	\$4,045,973	N/A
Projected Fund Balance 6/30/06	\$12,243,056	\$150,085,233	Projected Net Assets 6/30/06	\$18,818,175	N/A
Plus FY 2007 Budgeted Revenues ³	\$93,653,579	\$67,563,662	Plus FY 2007 Budgeted Revenues	\$5,166,570	\$7,843,895
Less FY 2007 ³ Budgeted Expenditures	\$93,653,579	\$217,648,895 ⁴	Less FY 2007 Budgeted Expenses	\$5,166,570	\$7,843,895
Projected Fund Balance 6/30/07	\$12,243,056	\$0	Projected Net Assets 6/30/07	\$18,818,175	\$0

/1 City of Alexandria, Virginia, Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2005

/2 City of Alexandria, Virginia, Approved Operating Budget, Fiscal Year 2006

/3 City of Alexandria, Virginia, Projected Operating Budget, Fiscal Year 2007

/4 In all likelihood a large portion of Capital Projects will not be expended in FY 2006 and FY 2007, as many capital projects are multi-year in execution.

/5 FY 2006 Budgeted Revenues are based on current estimates, which are subject to change.

/6 Sanitary Sewer Enterprise Fund was created in FY 2006 and FY 2007 is the first budget year.

- The Special Revenue Fund accounts for resources restricted to expenditures for specified purposes (for example, State and federal grants). As of June 30, 2005, the Special Revenue Fund unreserved fund balance was \$12,243,056. Because monies budgeted within the Special Revenue Fund are generally legally restricted to specific activities or programs, these monies are not considered available for appropriation to meet general expenditure requirements. Unexpended Special Revenue Fund monies are generally due to intergovernmental grant timing differences (e.g., a grant awarded to the City for a program operated under the federal fiscal year of October 1 to

September 30), and remaining Special Revenue funds at June 30 are reappropriated for use in the subsequent City fiscal year for the continuation of the designated programs. The total projected Special Revenue Fund fund balance, for GFOA reporting purposes, as of June 30, 2007 is \$12,243,056.

- The Capital Projects Fund accounts for all financial resources used for the acquisition or construction of major capital facilities not being financed by proprietary funds. As of June 30, 2005, the Capital Projects Fund had a total fund balance of \$150,085,233. This funding is dedicated to the completion of approved capital projects, and is therefore not available to meet general expenditure requirements. The total projected Capital Projects Fund fund balance as of June 30, 2007, would be \$0 assuming all budgeted capital projects are initiated and completed. Given implementation issues and plans and their multi-year nature, many of these capital projects will not be completed by June 30, 2007.
- The Internal Services Fund accounts for the financing of goods or services provided by one department to other departments or agencies of the City on a cost-reimbursement basis. The City established the Equipment Replacement Fund for purposes of providing for the accumulation of money to replace capital equipment items used in City operations. This fund derives its revenues from periodic equipment rental charges assessed to the user departments in the governmental funds. These revenues are then used to finance depreciation charges and associated expenditures to replace capital equipment. As of June 30, 2005, the Equipment Replacement Internal Services Fund had Total Net Assets of \$18,818,175. Equipment Replacement monies are accrued for the scheduled replacement of capital equipment, and thus are not available for appropriation to meet general expenditure requirements. The projected Equipment Replacement Fund Total Net Assets, for GFOA reporting purposes, as of June 30, 2007, is \$18,818,175. It should be noted that the bulk of the Net Assets represents the value of equipment (such as refuse collection vehicles and police cars) currently in use within the City government.
- The Sanitary Sewers Enterprise Fund accounts for sanitary sewer revenues and expenditures apart from the General Fund. This fund, established in mid FY 2006, was created for the purpose of achieving revenue self-sufficiency for sanitary sewer maintenance and construction and to be supported by sewer line maintenance fee and sewer connection fee revenues. It includes Transportation and Environmental Services (T&ES) operating expenditures for maintenance as well as cash capital and debt service expenditures associated with CIP reconstruction, rehabilitation and expansion projects. The total projected Sanitary Sewer Enterprise Fund fund balance as of June 30, 2007, would be \$0.

All tax revenues and most other revenues -- with the notable exception of State and federal grants -- are budgeted and accounted for in the General Fund. Likewise, all expenditures funded by General Fund revenues are budgeted as direct General Fund expenditures.

This "direct" treatment of expenditures is a concession to a more informative budget presentation. Technically, certain expenditures funded by General Fund revenues -- specifically, grant matches and the City appropriation to the Alexandria City Public Schools -- are accounted for as "transfers out" of the General Fund, "transfers in" to Special Revenue Funds and "expenditures" of Special Revenue Funds. Conceptually, however, these are expenditures of General Fund revenues.

In contrast with the accounting for private enterprises, where the primary focus is the calculation of profits and losses, governmental accounting is directed toward expenditure control and budgetary compliance. The accounting system's budgetary control function is accomplished by incorporating budgetary accounts into fund ledgers and recording appropriations -- expenditure authorizations adopted by City Council. All appropriations are legally controlled at the department level for the General Fund and Special Revenue Funds.

Budgets are prepared for the Capital Projects Funds on a project basis that cover the life of the project. The Internal Services Fund is controlled at the total Net Assets level.

Appropriations are administratively controlled at the "character" level of expenditure -- personnel, non-personnel and capital outlays -- reflected in the budget document. The City Manager may, at any time, transfer any unencumbered appropriation within the budget of an office, department or agency. Transfers of appropriations between expenditure characters within the same department or agency budget must be approved by the City Manager (or his designee). Budget detail pages, showing the budget at the "sub-object" level are available for inspection during business hours in the Office of Management and Budget.

The City's budget follows the same basis of accounting used in preparation of the City's audited Comprehensive Annual Financial Report (CAFR), which is prepared in accordance with "Generally Accepted Accounting Principles" (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB) and the Auditor of Public Accounts of the Commonwealth of Virginia (APA). The budgets of the General, Special Revenue and Capital Projects Funds are prepared on the "modified accrual" basis of accounting. Under this method of accounting, revenues are recognized in the period that they become measurable and available. With respect to real and personal property tax revenue and other local taxes, the term "available" is limited to collection within forty-five days of the fiscal year-end. Federal and State reimbursement-type grants are recorded as revenue when related eligible expenditures are incurred. The budget and financial statements of the Proprietary Funds are presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

City of Alexandria Fiscal Year 2007 Budget Process

(Fiscal Year runs from July 1 to June 30)

